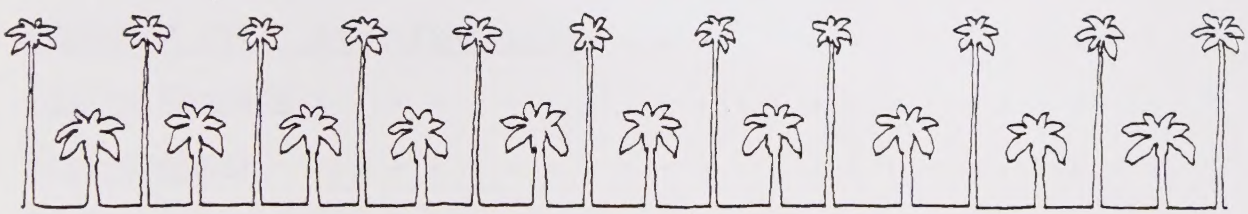
City of Santa Monica General Plan Land Use and Circulation Elements

Issue Paper: The Oceanfront



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SUMMARY OF THE ASSIGNMENT

INTRODUCTION

One of Santa Monica's great advantages as it proceeds to revise its Land Use and Circulation Element is the City's recent history of very extensive public policy debates dealing with many of the issues that are central to decisions on future land use patterns. This high level of debate has helped to crystallize issues to a far greater degree than is usually true. Thus the premise underlying this paper is that citizen-government communication in Santa Monica has progressed to the point where effective citizen involvement and action now require a carefully documented analytic perspective on each of what are generally agreed to be the key issues for future land use. The purpose of this paper and the four others like it is to provide such a perspective.

In November the Consultants prepared a set of "research designs" for each issue paper. These set out the key issues which the Consultants thought had emerged in the City in its past debates and discussions on land use policy in each of five geographical areas of the City:

(1) The Industrial Corridor
(2) The Neighborhood Commercial Areas
(3) The Downtown
(4) The Highway Commercial Corridors
(5) The Oceanfront

This statement of the issues was discussed with community groups, business organizations and elected officials in the City and then revised in light of the comments made. These groups included the Santa Monica Chamber of Commerce, the Pico Neighborhood Association, the Concerned Homeowners of Santa Monica, the Ocean Park Community Organization and the Santa Monica Visitors and Convention Bureau. Each design also contained a plan for analyzing the key issues. That plan indicated that for each geographical area the papers are to report what the consequences are likely to be in the year 2000 of:

- -- The continuation of existing land use regulations in effect in April 1981 (Scenario 1)
- -- The set of regulations and policies proposed by the City's Commercial and Industrial Task Force and adopted by the City Council as Resolution 6385, (Scenario 2)
- -- An alternative set of policies proposed by the Consultants.(Scenario 3)

As required by the Planning Commission, the analysis of consequences also includes an identification of the costs and benefits that may reasonably be expected to attach to the three different sets of policies with respect to six major City goals:

(1) Assurance of adequate General Fund revenues for provision of City services.
(2) Provision of employment opportunities for Santa Monica residents.
(3) Support for existing Santa Monica businesses.
(4) Maintenance of the City's housing stock.
(5) Preservation and protection of Santa Monica's natural environment, including attention to traffic, parking and utility infrastructure.
(6) Attention to problems of unemployment and underemployment.

DESCRIPTION OF THE AREA

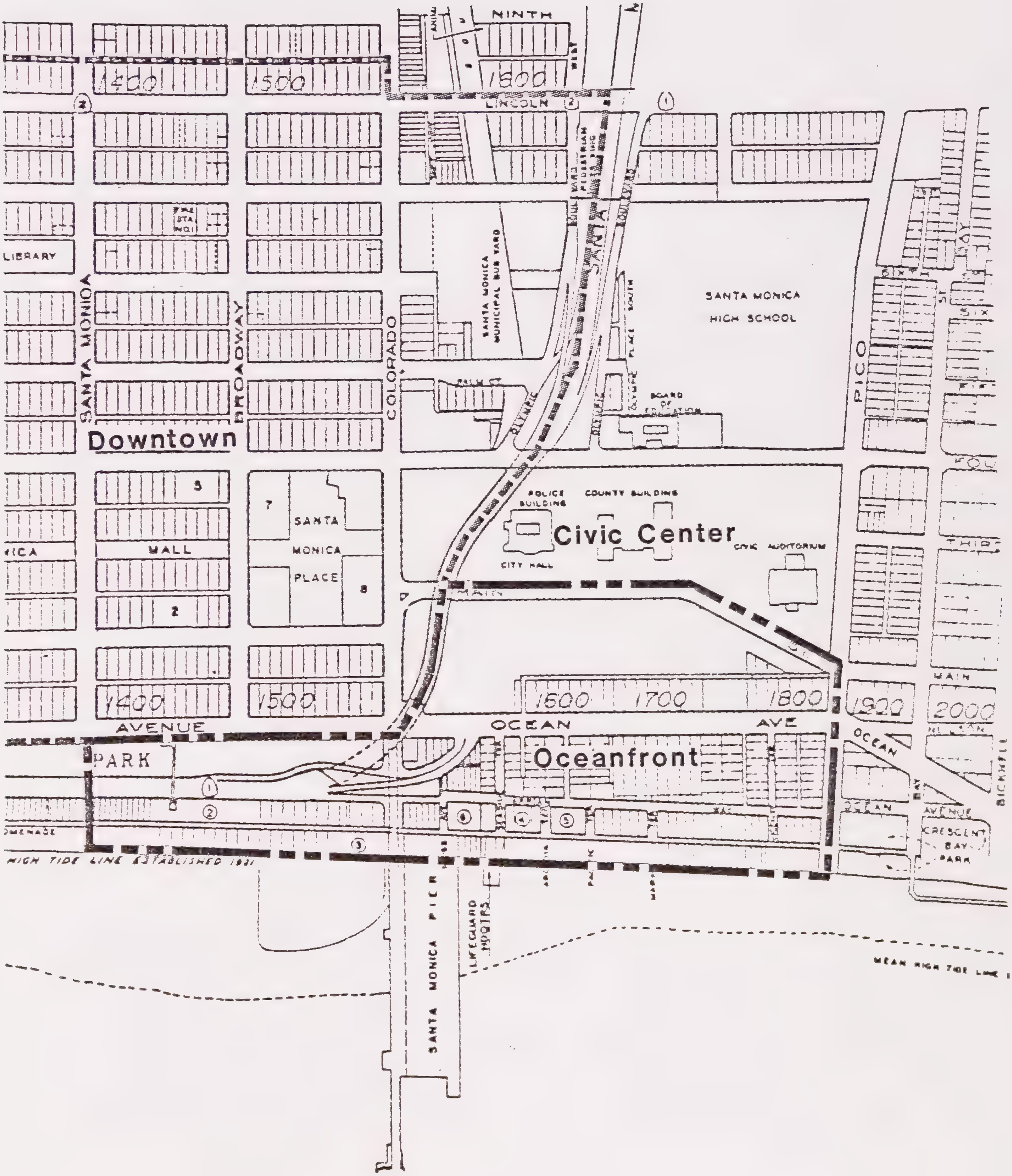
These facts and figures are set forth below for the "Oceanfront." The study area referred to as the "Oceanfront" here is the area between Colorado Boulevard, Pico Boulevard, Main Street, the Promenade and the Deauville property. It is indicated on the map which follows. The Oceanfront designated for this purpose is located between the Downtown, including Santa Monica Mall, Palisades Park and the Santa Monica Pier to the north, and the Main Street Commercial District on the south. The Civic Center is east of the Oceanfront and the beach is to the west. It should be emphasized that not all portions of this area are assumed to be susceptible to change. The R-4 zoned areas in the Oceanfront occupied by residential uses are not considered here as susceptible to change. It is also assumed in this paper that the Santa Monica Pier will be rebuilt, though the economics of its rebuilding have not been included in the estimates given here. The Land Use and Circulation Element assumes a Pier Master Plan as a given for planned land use.

USE OF THIS REPORT

The report on the Oceanfront, and all other issue reports, are divided into eight sections:

(I) Summary of the Assignment (Includes Area Description)
(II) Key Issues
(III) Summary of Key Policy Findings
(IV) Analysis -- Continuation of Past Policies
(V) Analysis -- Adoption of the Commercial and Industrial Task Force Program
(VI) Analysis -- An Alternative
(VII) Summary -- Impacts of the Three Scenarios
(VIII) Appendices

The reader should note that with respect to circulation questions, only the conclusions of the circulation analysis are reported here in the Summary of Key Policy Findings. The detailed circulation data and analysis are contained in PRC Voorhees, "Santa Monica Circulation Analysis," Santa Monica Planning Commission, March 1983.



Definition of Issue Area

These analyses are not proposed as a substitute for public debate of the key issues. They are intended as an aid to this debate. Each issue paper has been circulated to many groups in the City and will be presented at a public workshop where its findings will be described and written and oral comments solicited from the community. The workshop on the Oceanfront will be held on May 21.

The key decisions which a land use and circulation element entail are the regulation of use, height, bulk, intensity and resulting circulation patterns. These are the action items on which consensus must be achieved. To highlight these items, the final appendix in each issue paper contrasts the specific regulations proposed for each scenario.

After all five workshops have been held and the fruits of public comments arising from them are digested, the Consultants will relate the findings for each area to the City-wide policy that will be expressed in the new Land Use and Circulation Element of the General Plan. The approach will be translated into a draft Land Use Element, which will then again be circulated for public comment. Only after this extensive opportunity for public appraisal and advice will the package of policies selected by the City be put into finished form for submission to the City Planning Commission and the City Council.

KEY ISSUES

The key economic issue which must be decided with respect to the Oceanfront is whether it is economically viable for hotel development to occur under the building intensities allowed under current policy or proposed under Task Force recommendations. The key fiscal issue is what the cost and revenue consequences would be of permitting expanded hotel uses in the Oceanfront, and what the employment impacts might be. The closely related design question is whether the kinds of protection for building scale, open space, views and public access to the ocean envisioned by the City can be obtained with different intensity regulations than those currently suggested. This in turn changes the economic, fiscal and employment prospects.

SUMMARY OF KEY POLICY FINDINGS

SCENARIO I: CONTINUATION OF PAST POLICIES

The Oceanfront area contains a variety of uses, with residential and tourist related uses predominating. It is a patchwork of four different zoning designations -- C-2, C-3, C-A and R-4. Santa Monica developed a Local Coastal Plan in 1981 which recommended that the entire area, as defined here, be studied for conversion to consistently recreation or visitor-serving facilities, with emphasis on consideration of hotels and motels. The plan was rescinded and a revised version is about to be presented

to the City Council. The revision does not update change the basic policy direction with respect to the use of the area for recreation and visitor uses, however.

Since That Time and to 1982

* Since 1975, the hotel inventory in the City has continued to be made up of older beach-oriented hotels. There are about 1,000 first class hotel rooms in the City. No new hotel space has been added since 1975. Two Oceanfront hotels have undertaken some remodeling. The City has before it a proposal to permit construction of a 300 room hotel within the Oceanfront study area and to expand by 130 rooms another hotel outside the study area, but has not yet acted on either proposal. The City has approved a proposal for a 400 room hotel in the Industrial Corridor, at Colorado Place (the Welton Becket project).

* Hotel occupancy rates have been climbing and are estimated to currently be at 84%, while the normal expectation for occupancy in the industry is in the 75% range.

* Hotels have produced revenue for the City directly in the form of occupancy taxes. The revenues from the first class hotels alone amounted to $653,400 in 1981-82 and have been increasing, for the same number of rooms, at a rate of about 20-25% per year. This does not include sales tax revenues generated by sales made to visitors staying in hotels, nor does it account for utility, property or business license tax collections.

* Since 1975, traffic has increased on Main Street in the area between Pico Boulevard and Colorado Avenue from 8,200 vehicles per day to 11,100 per day and conversely has decreased on Ocean Avenue from 26,400 to 23,800. Both streets are still well below capacity.

If Past Policies Are Continued, By The Year 2000 The Oceanfront Will:

LAND USE:

* It is estimated that by the year 2000 City-wide demand for first class hotel rooms will escalate to 1,940 rooms, generating the need for about 1,000 additional rooms if the demand is to be met inside the City.

* The ideal location for hotels in the City is the Oceanfront, due to its proximity to the Airport, freeways, the beach, the Downtown and the Civic Auditorium. (The second most competitive location is in the Downtown area, especially on Ocean Avenue). Enough available large sites are present on the Oceanfront to construct hotels to meet the demand, at the scale favored by the hotel industry (minimum 300-400 rooms). Thus, if present policies continue it is likely that at least 550 new hotel rooms will be added by the year 2000 in the Oceanfront.

That developme[nt] would be scattered, howev[er], and would be unlikely to create a cohesive visitor serving district.

EMPLOYMENT:

* City-wide hotel employment would increase, providing 841 new jobs by the year 2000. Of these 841 new jobs, 484 are likely to be in the Oceanfront.

* Hotel employment has a different profile than office or industrial employment. Hotels employ predominantly service workers (maids, waiters, housemen, food service workers) whose average salaries are at or near the minimum wage, with the exception of cooks and bartenders. In the past, hotel employers in Santa Monica say they have employed higher percentages of Santa Monica residents than office and industrial employers say they have. Thus the construction of additional hotel space would have the effect of increasing resident employment, if current conditions remained unchanged. This assumes continuation of the current non-unionized character of Santa Monica hotel employment.

REVENUES:

* City-wide hotel linked revenues, consisting of the Transient Occupancy Tax and other related revenues, likely to be received from the new hotel construction will be about $1.5 million per year, in 1982 dollars, above what is currently being received, if current regulations continue. Of these additional revenues, about $800,000 is likely to come from the development of new hotel rooms in the Oceanfront.

TRAFFIC:

* Approximately 5,800 additional trips will be generated in the Oceanfront by hotel construction. Hotel generated trips normally exhibit less impact than office or residentially generated trips since only about 8% of a hotel's daily trips occur during peak hours when capacity problems usually occur. (This compares to peak hour percentages of about 12% for residential trips and 20% for office trips.) Traffic volumes on Ocean Avenue north of Pico Boulevard are projected to increase by 28% from 23,800 vehicles per day to 30,400 vehicles per day, still considerably below the daily capacity of the four-lane street. Daily traffic volumes on Main Street north of Pico Boulevard are projected to increase from 11,100 to 13,200 vehicles per day, a 19% increase, but also still well below the daily capacity of Main Street.

SCENARIO II: THE COMMERCIAL AND INDUSTRIAL TASK FORCE PROGRAM

Policy Changes Recommended

The Task Force recommendations leave the Oceanfront in four different zones, but suggests different standards for the four different zoning designations. In two of the zones (C-2 and C-3) a two

story height limit on all development is proposed, in one zone (C-A) a three story limit is proposed, and in the fourth zone (R-4) a four story limit is proposed.

Consequences

* It is unlikely that development of a major new chain hotel would take place under the proposed regulations, which reduce the development potential of the available sites below what the industry generally regards as necessary for participation in national reservation networks. (A first class hotel requires a minimum of approximately 200,000 square feet of space exclusive of parking.) This analysis appears in detail in Appendix I.

If The Recommended Task Force Policy Changes Are Adopted, By The Year 2000 The Oceanfront Will:

LAND USE:
* Be likely to contain tourist class hotel development similar to what is already in place. It is possible that some small hotels might be developed. Existing hotels might ask for and be permitted to undergo some expansion. And, the circumstances of a particular investor might make it profitable for him to develop a hotel under Task Force rules on a site he had acquired previously (as may be the case in the proposed Santa Monica Bay Inn). In general, however, the Consultants believe no large scale first class chain hotel construction would take place in the Oceanfront.

EMPLOYMENT AND REVENUES:
* The employment and revenue consequences thus imply a decrease of 484 jobs and $834,400 in total revenues from those anticipated under the first scenario.

TRAFFIC:
* Traffic volumes on Ocean Avenue and Main Street will be almost identical to those under the first scenario because there are unlikely to be any new hotels in the Oceanfront. Traffic volumes on Ocean Avenue north of Pico Boulevard will increase to 25,700 vehicles per day due to development in other parts of the City. This is about 4,600 fewer vehicles on Ocean Avenue than under the first scenario. Main Street north of Pico Boulevard will carry 13,200 vehicles per day, the same as in the first scenario. No traffic problems are anticipated on either Main Street or Ocean Avenue in the Oceanfront from Pico Boulevard to Colorado Avenue.

SCENARIO III: AN ALTERNATIVE

Policy Changes

A possible alternative is to aggressively promote Santa Monica as a tourist and convention destination, and attempt to increase the demand for hotel space beyond what is forecast under existing conditions. To attract this kind of hotel demand the City would have to promote tourism and reinforce this strategy by creating more lenient height and coverage restrictions. It could do so, while at the same time insisting on compliance by hotels with urban design objectives for the area sensitive to its environment. The aim of this alternative is also to bring the physical attractions, and hence the economic values of the waterfront, inland, by maximizing both physical and visual access to the water.

The principles governing this policy are to:

(1) Improve usable public open space in the Oceanfront, by extending Palisades Park and providing east-west street connections from the water inland by setbacks.

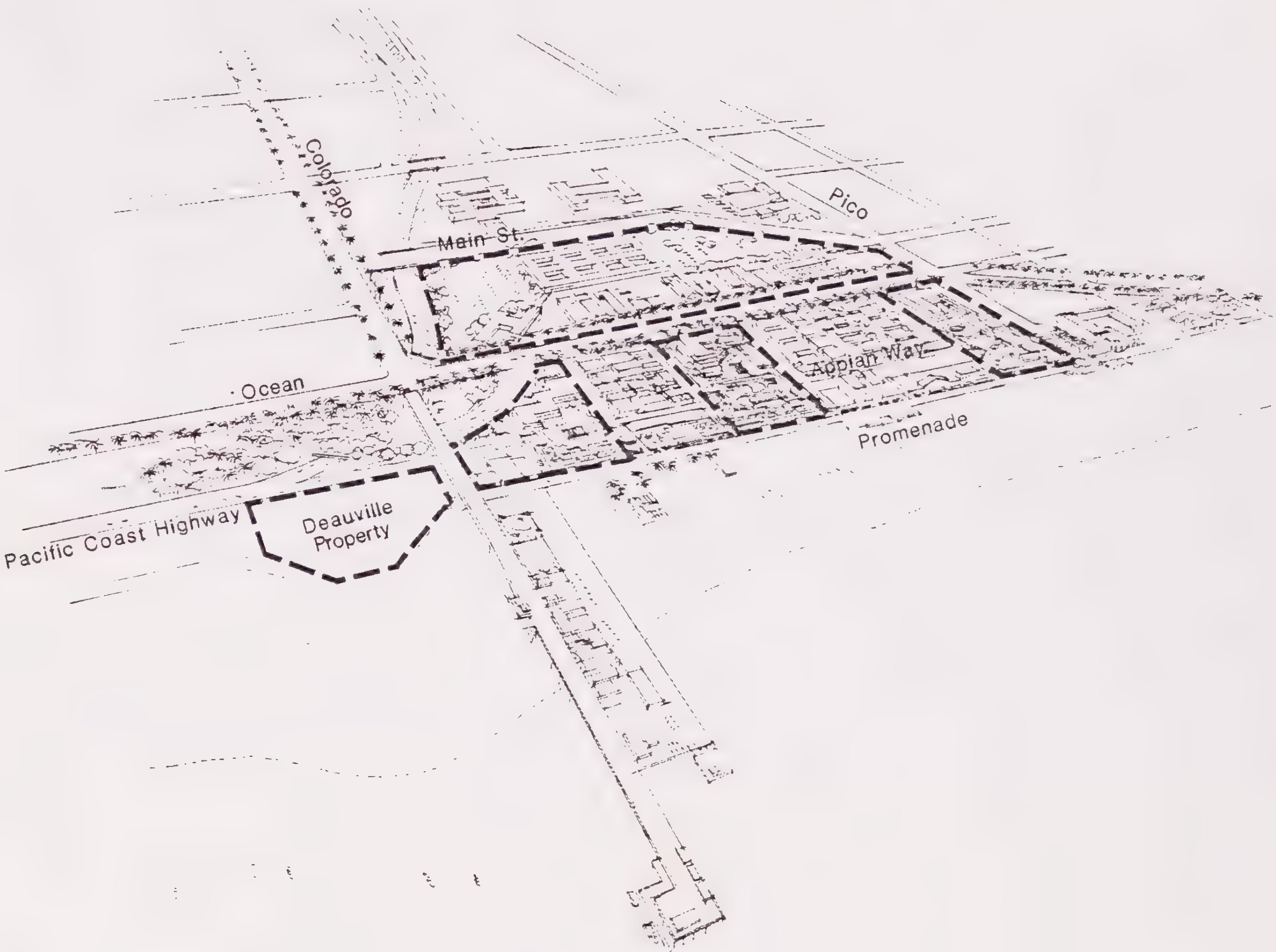
(2) Create several large hotel sites extending from the Ocean to the Promenade by closing portions of Appian Way and encouraging active commercial recreation uses to replace parking fronting the Promenade, accommodating the displaced parking within the new development or in adjacent areas with provision of a shuttle service.

(3) Place appropriate building and design standards on the area, including FAR of 1.5-3.0, a height limit of 2-6 stories (a three story facade at Ocean Avenue and two stories at the Promenade), 75-85% coverage and design guidelines to ensure sunlight to public open space, and buildings built with appropriate materials, particularly materials of light color. The City could, for example, eliminate the use of reflective or black glass exteriors throughout the area.

These principles are illustrated in Figures 1-5.

Consequences

* If the City set out to aggressively promote hotel development in the area, there could be created appropriate sites totalling 20.75 acres, which have the potential for containing approximately 2,450 hotel rooms. This includes four large hotels of approximately 400 rooms each plus several small inns,beyond the one hotel which is projected to occur in any case, should current regulations continue.



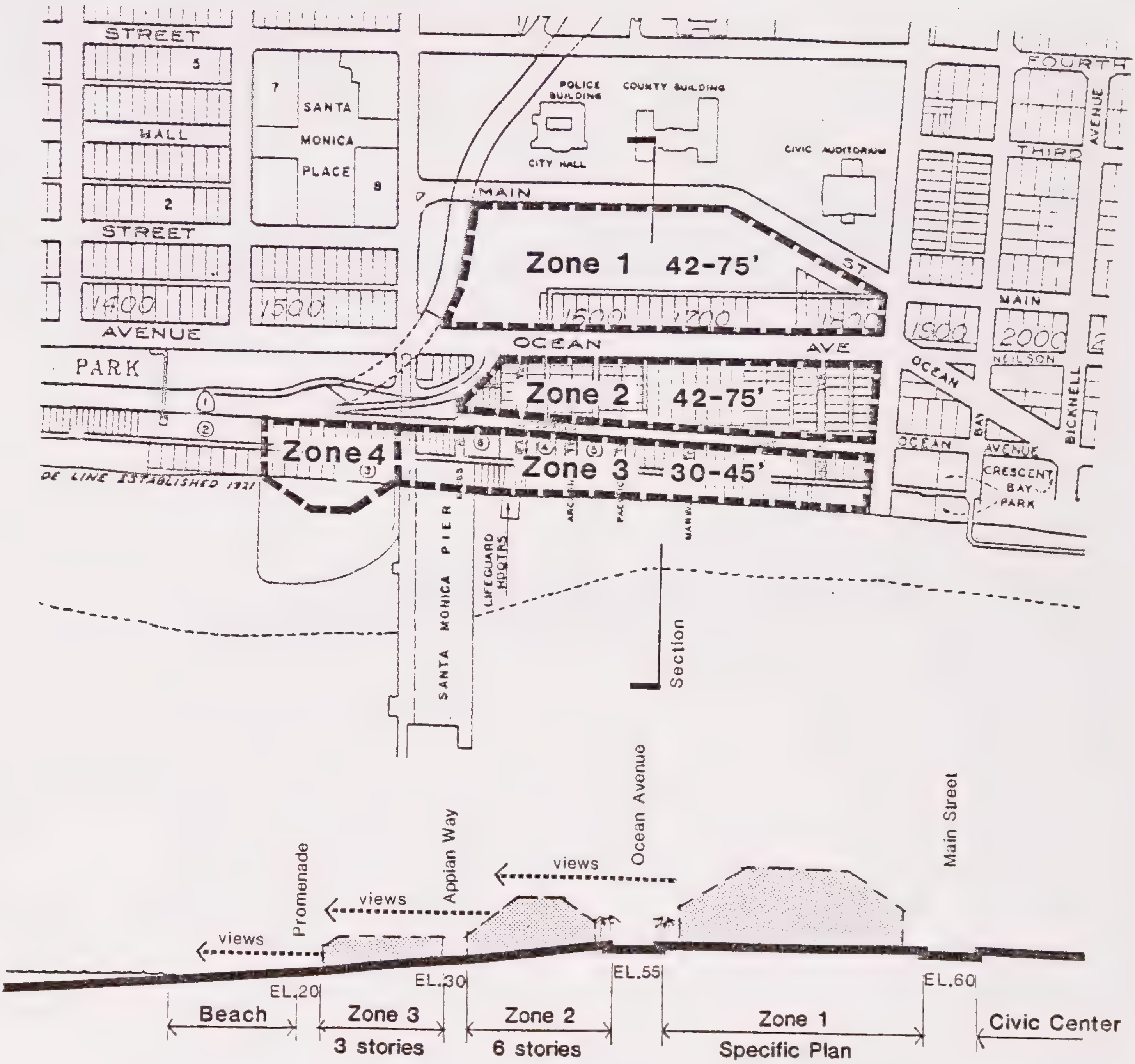
Oceanfront

LAND USE

PRINCIPLE: Encourage visitor accommodations and related uses, while protecting existing residential.

MEANS:

- Rezone parcels currently in commercial or parking use to Hotel District, which would allow residential as a secondary use. (Potential large hotel sites are illustrated above.)
- In recognition of the strategic location and size of the Rand properties and the Deauville site, prepare a specific area plan for their future use.
- Require commercial and/or recreation uses on the ground floor frontage of the Promenade and of Ocean Avenue.
- Integrate plans for Pier redevelopment into General Plan guidelines for the Oceanfront. (Note: The Pier Master Plan is a "given" for the purposes of the present study.)



Oceanfront

URBAN DESIGN AND DEVELOPMENT STANDARDS

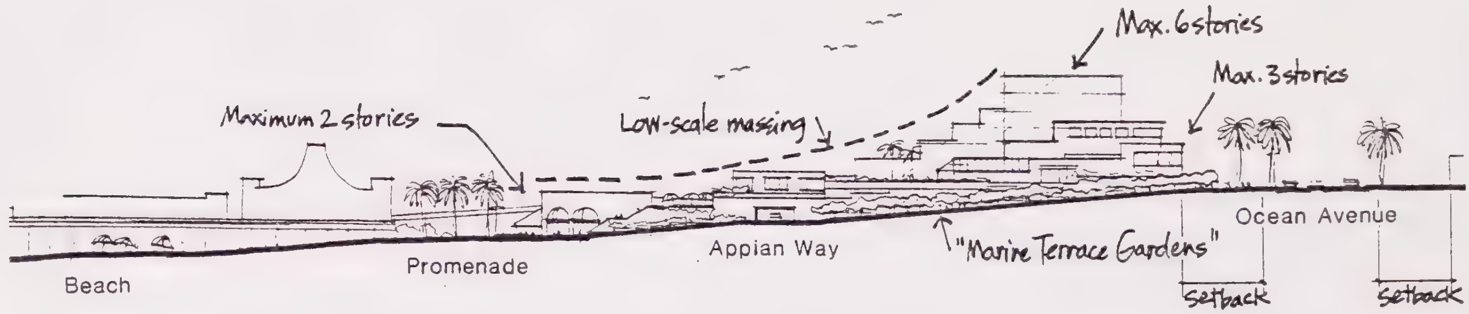
PRINCIPLE: Maximize waterfront views.

MEANS:

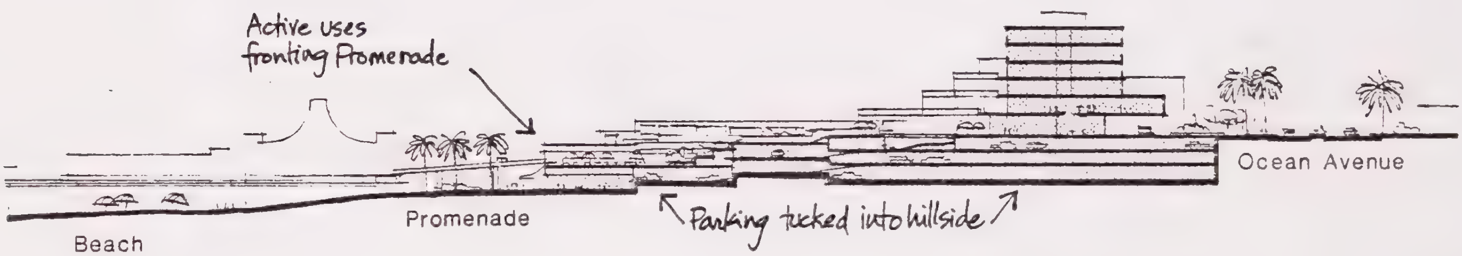
Proposed height limits, allowable envelopes, and floor area ratios (as diagrammed above and on next page):

Zone 1: 42-75' (solar envelope) FAR 3.0
Zone 2: 42-75' (solar envelope) FAR 3.0
Zone 3: 30-45' (solar envelope) FAR 1.5
Zone 4: 30-75' (solar envelope) FAR 3.0

Fig.3



Section through Proposed Public Right of Way



Section through New Hotel

Oceanfront

URBAN DESIGN AND DEVELOPMENT STANDARDS

PRINCIPLE: Enhance the special character of the Oceanfront district, as a tourist attraction and an amenity to Santa Monica.

MEANS:

-Create new hotel sites linking Ocean Avenue to the Promenade.

-Guide building design to ensure sun to the extension of Palisades Park, along Ocean Avenue.

-Require open space easement or dedication for extension of Marine Terrace to Ocean Avenue, and possibly continuing to the Civic Center (refer to Public Open Space).

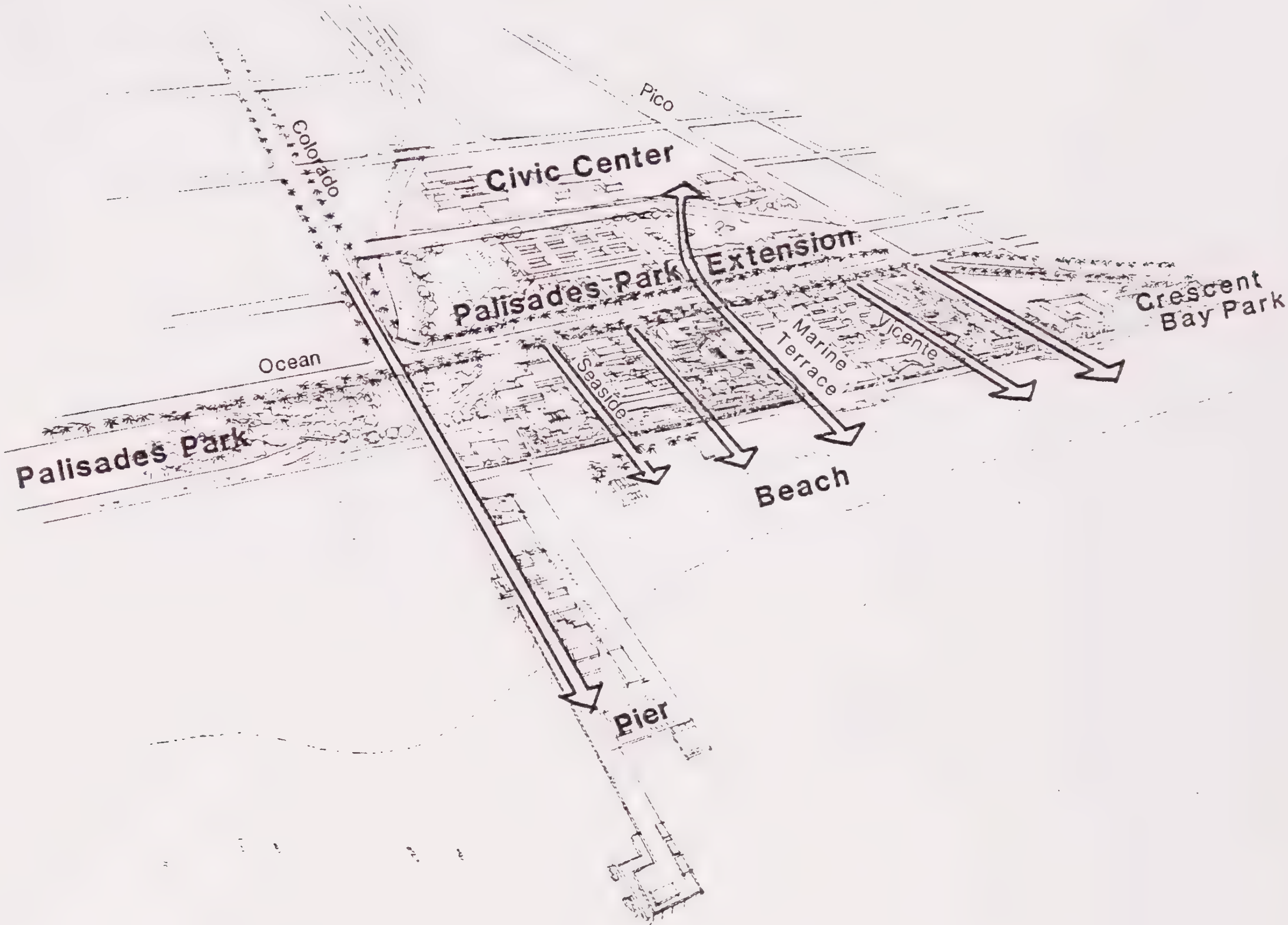
-Require a low (maximum 3 story) facade along Ocean Avenue, rising to approximately 6 stories, then stepping down to a 2-story facade along the Promenade. Allow maximum coverage of 75-85 percent.

-Enhance the Promenade by replacing existing beachfront parking lots with active uses (retail, small inns and restaurants, commercial recreation, etc.)

-Relocate lost beach parking. This could occur within new development (parking can be tucked into the hillside, to minimize visual impact), or nearby, with shuttle transportation to the beach.

-Consider the Deauville property as a potential site for Pier parking, new hotel/visitor-serving uses, or both.

Fig.4



Oceanfront

PUBLIC OPEN SPACE

PRINCIPLE: Strengthen existing framework of streets and view corridors leading to the beachfront.

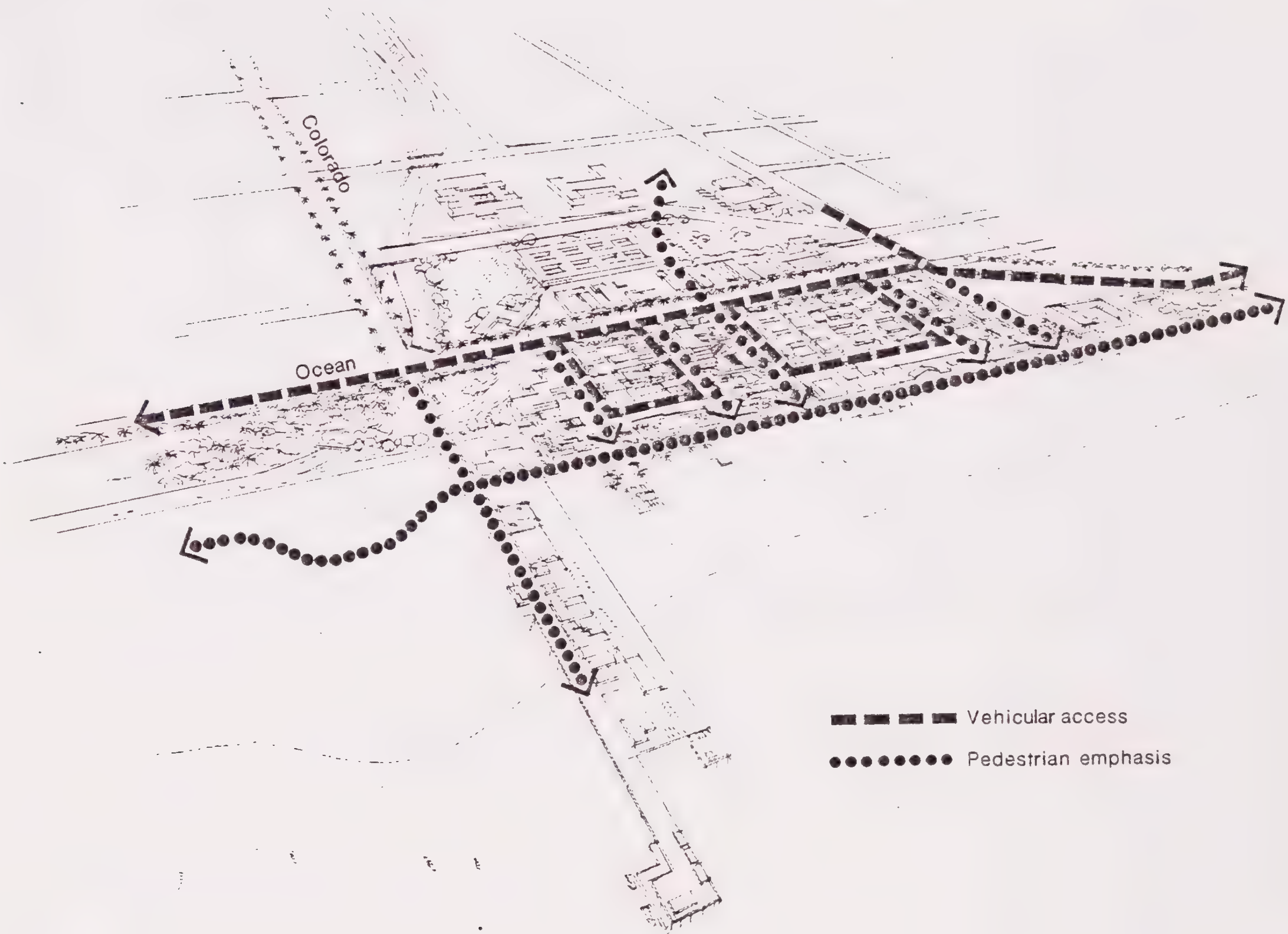
MEANS:

-Double row of palms or other appropriate landscape treatment within 30-50' required setback along Ocean Avenue, to visually extend Palisades Park to Crescent Bay Park.

-Landscape improvements on Colorado Avenue, to emphasize connection to Pier and water.

-New public right-of-way (street or landscaped stairway) created to connect Ocean Avenue to the water at Marine Terrace (with possible extension to link all the way to the Civic Center).

-Pedestrian ways should be given special streetscape design guidelines.



Oceanfront

CIRCULATION

PRINCIPLE: Distinguish two interwoven access networks -- one mainly for traffic, and the other to be enhanced for pedestrian and bicycle movement.

MEANS:

-Close or deck over unneeded portions of Appian Way to create hotel parcels which link Ocean Avenue to the Promenade.

-Enhance pedestrian and bicycle routes, particularly the Promenade, Ocean Avenue, and the new right-of-way at Marine Terrace.

-Close ramps beside Pier, to eliminate auto/pedestrian conflicts at Ocean Avenue.

-Prohibit service access to hotels on east-west pedestrian routes.

-Relocate as much beachfront parking as possible to subsurface structures, or screen behind buildings fronting on the Promenade. Also consider a shuttle transporting beach visitors from nearby lots (e.g., Rand, etc.).

filling this task. To date the Civic Auditorium has not hosted a large convention in spite of the fact that City ordinances require that the auditorium be rented free of charge for a registered convention. The Civic Auditorium staff reports that the inability to attract such visitors is caused by the absence of first class hotel space, not the deficiencies of the facility. No assumptions about expanded Civic Auditorium facilities are made here, however.

* In addition the City would have to participate in parcel assembly, street closures, relocation of State beach parking and possibly some residential units and acquire some land for the extension of Palisades Park and other pedestrian linkages not provided in setbacks of private development.

<u>If The Alternative Policy Changes Are Adopted, By The Year 2000 The Oceanfront Will:</u>

LAND USE:

* Under this scenario it is likely that by the year 2000, the area would contain 2,450 additional hotel rooms.

EMPLOYMENT:

* These hotels would and provide almost 2,200 new jobs.

* Of the 2,200 new jobs generated by the additional hotel space by the year 2000, 1,100 would be jobs for Santa Monica residents.

REVENUES:

* The additional hotel space would produce $3.7 million in new revenues by the year 2000.

TRAFFIC:

* The additional 2,450 hotel rooms would ordinarily generate approximately 25,700 vehicle trips. However, the area is so close to the Downtown office and retail centers, the beach, and civic center areas, that about a quarter of these trips would probably occur on foot. Since most hotel trips are made at off-peak hours they do not impact the capacity of streets and intersections in the same way that office and retail-generated trips do. Given these assumptions, traffic volumes on Ocean Avenue will increase to 37,250 vehicles per day under this scenario, approximately 20% higher than under the first two scenarios. Volumes on Ocean Avenue, in the Oceanfront, will remain below 75% of capacity.

* The daily traffic volume on Main Street is projected to increase to 13,400, only 2% above the volumes projected for the first two scenarios.

* The closure of Appian Way, south of Seaside Terrace, to produce large sites for hotels will not have significant negative impacts on traffic, provided access to and from the beach parking lots is maintained.

ANALYSIS -- CONTINUATION OF PAST POLICIES

Previous Policy Recommendations

Santa Monica developed a Local Coastal Plan in 1981 which recommended that the Oceanfront be studied for recreation or visitor-serving facilities, with emphasis on consideration of hotels and motels. The City submitted a preliminary version of this plan to the Coastal Commission, but the City Council subsequently rescinded it. In 1982, the staff retained a Consultant to prepare a revision. The Consultant's report describes the Oceanfront as having been identified since 1981 as a hotel-motel study area and indicates that since that time the implied policy has been to consider it a tourist-serving area: "Because the buildings are older and because of the location near Downtown, the beach and the Pier, this area is expected to recycle to whatever extent is permitted. It therefore offers an opportunity rare in an urbanized area for planning a well-organized visitor service complex."

Since That Time and Up to 1982

The prime Santa Monica lodging market currently contains about 1,000 hotel rooms with an estimated 1979 occupancy of 84%. Existing first class hotels are as follows:

TABLE I --
FIRST CLASS HOTEL SPACE IN SANTA MONICA, 1980

Hotel	Number of Rooms	Double Rm Rate*
Miramar Sheraton	291	$65
Pacific Shores	172	46
Huntley Hotel	210	48
Inn at Santa Monica	182	48
Holiday Inn	128	46
Total	983	

* 1982 rates range from $63 to $105.

Occupancy rates have risen steadily in recent years, so that by 1979 the hotel space was at 84% occupancy, as indicated below.

TABLE II --
FIRST CLASS HOTEL ROOM OCCUPANCY, 1976-1979

Year	Occupancy Rate	Room-Night Demand
1976	66.5%	184,600
1977	71.0	244,500
1978	74.0	255,000
1979	84.0	289,430

The demand for lodging is reflected in the increase in room tax receipts from hotels, as indicated below:

TABLE III --
SANTA MONICA HOTEL TAX RECEIPTS*

Year	Total Receipts	Percent Change**
1974	$ 244,600	
1975	268,300	10%
1976	320,000	19
1977	402,000	25
1978	477,300	19
1979	588,900	23
1980	721,000	22
1981	931,700	29
1982	1,073,500	15

* Room tax (Transient Occupancy Tax) was 6% of room rate for rooms not occupied on airline contracts from 1972 to 1982. In 1982, the rate was increased to 8%.

** The average annual increase to 1978, the period for which detailed data is available, was 18%, one-half of which was accounted for by the increase in room rates. Since 1978, the average annual increase has been 22%.

The demand for hotel lodging is normally projected in four categories: commercial travellers, group meeting guests, tourists and airline contract rooms. The estimated demand for lodging from each segment of the hotel market is indicated below for 1982.

TABLE IV --
DEMAND FOR FIRST CLASS HOTEL SPACE, 1982*

Market Segment	Room Nights**
Commercial Travellers	184,965
Group Meeting Guests	22,800
Airline Contracts	65,900
Tourists	66,800
Total	340,465

* The methodology for projecting hotel demand is discussed in detail in "Background to the Issue Papers," March 1983 and in "City of Santa Monica Demographic and Economic Projections: 1980-2000," February 1983.

** Room nights are rooms x the number of nights they are occupied.

If Past Policies Are Continued, By The Year 2000 The Oceanfront Will:

If past policies are continued, the City will experience demand by the year 2000 for 56% more room nights than are currently being generated. The largest increase will come from tourists and persons attending meetings, as well as airline personnel. The largest single group will remain business travellers, but increases in other groups will be sharper. These projections are indicated below:

TABLE V --
DEMAND FOR FIRST CLASS HOTEL SPACE, 2000

Market Segment	Room Nights	PerCent Change
Commercial Travellers	239,223	+ 29%
Group Meeting Guests	41,179	+ 80
Tourists	126,068	+ 91
Airline Contracts	124,370	+ 86
Total	530,840	+ 56%

This suggests that if the City wishes to accommodate the projected future demand it would need to have about 1,940 hotel rooms, or about 1,000 more than are currently in existence in its luxury hotels.

Under existing zoning the Oceanfront falls under the following building standards:

TABLE VI --
OCEANFRONT ZONING STANDARDS:
CONTINUATION OF CURRENT POLICIES

Zone	Height	Max. Coverage	FAR
R-4	6 stories,65'	50%	3.0 (effective)*
C-4	6 stories,90'	---	3.3
C-A	6 stories,90'	---	3.3
C-2	2 stories,30'	---	2.0 (effective)

* The legal limit is six stories at 50% coverage, yielding a 3.0 allowable FAR.

It is hard to evaluate the development potential for hotels under a continuation of this zoning pattern. First, the economics of hotel development are somewhat different than that for office development. Basically, the first class chain hotel developers are resistant to building hotels too small to be eligible for participation in national reservation networks. This dictates a hotel of 300-400 rooms, and requires a parcel of about 75,000 square feet if the FAR is 3.0.

Since residential buildings are scattered around the area and parcels in residential use are excluded from being considered as susceptible to change, the hotel sites available in the Oceanfront are fragmented. It is, however, possible to locate a number of potential sites which are either currently visitor-serving commercial activities which could be aggregated or are City owned. These potential sites total at least 6.3 acres in the Oceanfront and the immediate adjacent Downtown area near Santa Monica Place. Each parcel is large enough to hold a 300-400 room hotel, which the industry regards as the minimum necessary to participate in national reservation systems. At this size, a hotel appears to be economically feasible on the Oceanfront, given, as shown in the case study in Appendix I, that substantial return is not expected until its third year of operation. There is potential in the area for about 1,100 rooms. It is projected here that at least 550 new hotel rooms would be built in the Oceanfront if current regulations are continued. (The remainder of the demand would be fulfilled in other areas of the City, or by the already approved 400 hotel rooms at Colorado Place).

A 350 room hotel is likely to provide about 300 jobs in the City, divided as follows:

TABLE VII --
TYPICAL HOTEL EMPLOYMENT PATTERN (350 ROOMS)*

Job Title	Number of Workers	Average Salary
Managers	20	
Professionals	2	N/A
Sales Workers	2	
Clericals	40	
Semi-Skilled Labor	35	
Service Workers	200	
Total	299	$10,200

* Numbers of service workers depend in part on the emphasis on banquet as opposed to room business. A 700 room hotel is therefore likely to have more than twice as many service workers and more than twice as many sales personnel.

If current regulations are continued, by the year 2000 employment in new Oceanfront hotels would provide 484 jobs, 240 for Santa Monica residents. The estimate of 484 additional jobs expected to be generated in the Oceanfront area by the addition of 550 new hotel rooms is based on a conversion factor of .88 full-term equivalent jobs/additional hotel rooms. The conversion factor was derived from hotel development proposals currently on file with the City. Moreover, based on telephone surveys of the largest existing hotels in the City, approximately 50% of these new jobs would be filled by Santa Monica residents if present conditions continue to exist in the year 2000.

The new hotel related revenues would be $834,400. This is based on an estimate of $1,517/yr./rm. additional municipal revenues to the City associated with each additional hotel room. This figure reflects the following factors:

- -- $1,000/yr./room in Transient Occupancy Taxes based on the current Santa Monica tax rate of 8% and the assumption that all 550 new hotel rooms will be in the first class category. Calculations also assume an 80% room occupancy rate and that 70% of room revenue would be transient tax eligible. The remaining 30% would represent long-term occupancies and airline contracts.

- -- $331/yr./room in Sales Tax reflecting estimated incremental increases: a) based on purchases within the hotel by guests, b) purchases outside of the hotel by guests, and c) purchases outside of the hotel by new hotel employees.

- -- $51/yr./room in Utility Users Taxes based on current Santa Monica tax rates of 5% of telephone, gas and electricity usage.

- -- $82/yr./room in Business License Tax receipts based on existing Santa Monica rates.

- -- $53/yr./room in Property Tax receipts based on current Santa Monica tax rates and the current allocation factor for distribution of shares of property tax revenues to the City.

Despite these revenue and employment advantages this scenario is a poor use of the City's potentially greatest physical asset, its waterfront location and views. Uncoordinated hotel development would not result in a cohesive, well designed visitor-serving district.

ANALYSIS -- THE COMMERCIAL AND INDUSTRIAL TASK FORCE PROGRAM

Policy Changes Recommended

The City's Commercial and Industrial Task Force did not examine as a central issue the question of whether it favored attracting entertainment and tourist-oriented facilities to the Oceanfront. In its process of review it merely commented that the area should be studied further. It suggested large hotels could appropriately be located in the existing commercial zones in the Oceanfront, but it did not exempt other portions of the area from the lowered height limits proposed for C-A, C-2, C-4 and R-4 zones in other portions of the City. This had the impact of creating in the Oceanfront a situation where building standards would be as follows:

TABLE VIII--
OCEANFRONT ZONING STANDARDS: TASK FORCE RECOMMENDATIONS

Zone	Height	Max. Coverage	FAR
R-4	4 stories, 50'	50%	2.0 (effective)
C-4	2 stories, 30'	75%	1.5
C-A	3 stories, 45'	75%	2.0
C-2	2-3 stories, 30'-35'	--	2.0-3.0

Consequences

Assuming an average FAR of 2.0 for the same potential sites identified in the first scenario, the prototypical hotel investigated would require at least 2.5 acres or 75% more land than in the first scenario. There is no readily available site which is this large. Thus, if the same prototypical chain hotel estimated in the first scenario is imagined under the regulations suggested by the City's Commercial and Industrial Task Force, there is serious doubt that a new first class chain hotel would be built due to the low height limits suggested by the Task Force.

If Task Force Recommendations Are Adopted, By The Year 2000 The Oceanfront Will:

The hotel stock is likely to remain at approximately its current level and the additional demand for hotel rooms will likely not be met.

The additional hotel room demand is likely to be deflected to other areas of Los Angeles, such as Marina del Rey, or to some number of new small hotels in the Santa Monica area.

Beyond the question of whether forecast demand would be accommodated, however, is that of how to best take advantage of the enormous potential inherent in the Oceanfront. Under this scenario as under the first scenario, any new development which took place would be scattered and would not make maximum use of the City's unique waterfront location and views. Compared to the first scenario, revenues would be $834,400 lower because of the likelihood that no additional hotel rooms would be constructed in the Oceanfront area. With respect to employment, 484 fewer jobs would be available in the area, and about 240 fewer for Santa Monica residents.

ANALYSIS -- AN ALTERNATIVE

Policy Changes

A possible alternative policy is to aggressively promote Santa Monica as a tourist and convention destination. This strategy of increasing demand for hotel space would be reinforced by allowing height and coverage regulations which meet the space requirements of first class hotels, while insisting on compliance by hotels with urban design objectives for the area which are sensitive to its unique context. The aim of this alternative is to bring the visual landscape values of the ocean, beach and park inland, by creating both physical and visual linkage and access to the water through provision of more open space and improved streetscape design.

The larger the site that can be assembled for hotel development, the lower the height and intensity of development needs to be. The alternative involves some public intervention to assemble several large hotel sites between Ocean Avenue and the Promenade, and between Ocean Avenue and Main Street. This will necessitate closure of portions of Appian Way. Existing beach parking displaced might be accommodated in the new development or adjacent to it with a shuttle bus service. Some very limited number of residential units fronting on the Promenade, might be displaced, and would be relocated within planned new development or in vacant parcels in the Oceanfront area. Required setbacks would promote view corridors from Ocean Avenue to the bay and extend Palisades Park on Ocean Avenue south to Crescent Bay Park.

The principles governing this policy are to:

(1) Improve usable public open space in the Oceanfront, by extending Palisades Park and providing east-west street connections from the waterfront inland by setbacks.

(2) Create several large hotel sites by expediting land assembly and trades among existing land uses.

(3) Place appropriate building standards and design guidelines on private development. These include FARs of 1.5-3.0, a height limit of 2-6 stories (a maximum three story facade at Ocean Avenue and a two story facade on the Promenade), 75-85% coverage and design guidelines to insure winter sun on public open space, and the use in all new construction of appropriate materials and colors. This includes an emphasis on light colored building surfaces and prohibition of reflective or black glass fenestration.

Figures 1-5 contain a set of diagrams which show how these principles would be accomplished.

Consequences

The scenario and principles sketched here assume that the City would not only accommodate itself to projected future demand for hotel space but would encourage hotel development and establish the principles under which developers would construct additional hotel rooms in the Oceanfront. The City would adopt a posture in which it set out to further expand hotel demand. This could be done by cooperation with private parties in land assembly to make new large sites available for development. It could also be done by the use of Visitors and Convention Bureau resources to spur visitor traffic to Santa Monica.

Alternatively, it could be done by City creation of a magnet to enlarge its share of tourist and visitor activity. This might involve converting the Civic Center Auditorium into a facility better suited to attracting group meetings. Santa Monica convention business has declined since the 1960's. The decrease is in part attributable to the shortage of hotel accommodations. The Civic Auditorium has mostly been used for trade shows and concerts rather than convention business.

Such a strategy would also require taking into account the probable growth of hotel facilities in nearby locations. Throughout the Los Angeles region the hotel inventory is expected to expand appreciably in the next two to three years. As indicated below, an additional 7,307 rooms are already under construction, representing a 30% increase in the hotel inventory in the region. An additional 1,800 rooms have recently been proposed by the County of Los Angeles in its new plan for Marina del Rey.

TABLE IX --
PROJECTED REGIONAL HOTEL EXPANSION, 1980

Area	Existing Rooms	Proposed Rooms
Downtown LA	7,300	2,100
Hollywood	1,520	850
Mid-Wilshire	1,225	--
LAX	4,715	2,407
San F Valley	5,500	715
West LA, Culver City	2,758*	300
Other LA Co.	1,850	935
Total	24,868	7,307

* In 1980, Westwood had 1,151 hotel rooms, Marina del Rey had 772 and Culver City had 835 rooms. The additional 300 does not include the recently proposed expansion in Marina hotel space, since no specific proposals have yet been announced and the plan for the area has been rejected by the Coastal Commission. Source: Los Angeles Business Journal, 2/4/80.

If The Alternative Policy Changes Are Adopted, By The Year 2000 The Oceanfront Will:

Contain approximately 1,900 new hotel rooms in large hotels. These would be in addition to the 550 rooms likely to be built even if no policy changes occur, bringing the area total to approximately 2,450 rooms.

The additional hotel space would produce about 2,200 new jobs by the year 2000; 1,100 for Santa Monica residents. The additional employment was estimated using the same factors as used in the first scenario. However, it should be noted that the large hotels would likely bring with them unionization of all major hotels in the City, which would open the employment market to a wider group of workers from the region as a whole.

The additional hotel space generated by the scenario would produce $3.7 million in new revenues by the year 2000. The estimate of additional revenue is based on the same calculation factors detailed as part of the first scenario multiplied by an expected incremental increase of 1,900 rather than 550 new hotel rooms in the Oceanfront Area by the year 2000.

The additional 2,450 hotel rooms would ordinarily generate approximately 25,700 vehicle trips. Because of the close proximity of this large number of hotel rooms to the downtown office and retail centers, the beach and Civic Center areas, the anticipated number of vehicle trips was reduced by 25% to account for trips which are likely to be made on foot. Even though the hotels will be generating a large number of daily trips, most are made at off-peak hours and therefore do not impact the capacity of streets and intersections in the same way that office and retail generated trips do. Traffic volumes on Ocean Avenue will therefore increase to 37,250 under this scenario, or about 20% higher than under the first two scenarios, but volumes on Ocean Avenue, in the Oceanfront, will remain below 75% of capacity.

The additional hotel trips do increase traffic volumes on Ocean Avenue, in the Downtown, to just above the 75% level (77%). The daily traffic volume on Main Street is projected to increase to 13,400 or only 2% above the volumes projected for the first two scenarios. The closure of Appian Way, south of Seaside Terrace, to produce large sites for hotels will not have significant negative impacts on traffic, provided access to and from beach parking lots is maintained.

SUMMARY -- OTHER IMPACTS OF THE THREE SCENARIOS

The analysis of the Oceanfront alternatives has primarily focused on the implications of these alternatives for the demand for hotel space and consequently for employment and City revenue. Below a comparison is made among all six goals about which the City has concerns.

CITY GOAL	CONTINUATION (Baseline)	TASK FORCE	ALTERNATIVE
Costs & Revenues (in constant 1982 dollars)	Results in a revenue increase of $.8 million and a cost increase of $.4 million from current conditions. Based on year 2000 development patterns, total revenues exceed total costs by $.8 million.	Results in a revenue increase of $.1 million and a cost increase of $.2 million from current conditions. Based on year 2000 development patterns, total revenues exceed total costs by $.2 million.	Results in a reveune increase of $3.5 million and a cost increase of $1.5 million from current conditons. Based on year 2000 development patterns, total revenues exceed total costs by $2.3 million.
Support for Small/Locally Owned Business	Support will increase as result of new hotel development which will likely induce further commercial development in the area.	Least supportive of the three scenarios as no new large scale hotel development is anticipated in the area.	Most supportive of the three scenarios; reflects the most new hotel development in the area.
Housing	Areas poor image and high land cost will divert housing development.	Same as Scenario 1.	Relocation of housing units to allow new development to enhance Promenade.

The Environment	Scattered hotel development. No cohesively planned hotel district. Lacks relation to existing building scale. No solar access. No consideration of view corridors. No new pedestrian access or public open space.	Little or no hotel development beyond existing area as is. Similar to first scenario.	Provides for cohesive hotel district. Development standards give better relation to existing context. Protects solar access, provides new usable public open space, pedestrian linkage and view corridor.
Un-under-Employment	An increase of about 350 jobs for Santa Monica residents from current conditions.	An increase of about 108 jobs for Santa Monica residents from current conditions.	An increase of about 1,187 jobs for Santa Monica residents from current conditions.
Employment	From current conditions, an additional 701 jobs are anticipated of which 484 are due to new hotel development.	From current conditions, an additional 217 jobs are anticipated. No new jobs due to hotel devdevelopment.	From current conditions, an additional 2,373 jobs are anticipated of which 2,156 are due to new hotel development.

APPENDICES

OCEANFRONT PRO-FORMA AND ANALYSIS

The objective of this analysis is to examine the economic viability of a hotel on a typical site in the Oceanfront study area. The main issue to be evaluated is the impact of height restrictions on the feasibility of hotel development. However, an important related question is the number of rooms necessary to make a hotel viable.

With respect to the optimum room number, a number of Consultants involved in the economic and financial analysis of hotel sites were interviewed. The consensus was that the minimum number of rooms necessary to attract a major operator such as the Marriott, Hilton or Sheraton chains would be in the 300-400 room range. Sizes in the higher end of the range would also be hotels large enough to accommodate and attract smaller executive conferences. Considering the new orientation of Santa Monica to attracting conventions or conferences, evidenced in the recent formation of a Visitors and Convention Bureau, but no commitment to a large convention center, this approach (attempting to attract small executive conferences) seems to be the best strategy. Therefore, the following analysis assumes that a 300 room hotel is the appropriate size.

The second analytical issue has to do with site size. Rather than assume that a particular site will be developed, the analysis has been undertaken using a hypothetical site. This, in some sense, establishes a baseline which then allows the analyst to consider alternative scenarios. As the analysis shows, a 300 room hotel with the necessary common areas, would require a building of roughly 200,000 sq. ft. Even at an FAR of 3.0 this would require a site of 66,666 sq. ft. (1.53 acres). The building design would probably yield a 5-6 story building assuming that all of the parking was placed underground. Even under these baseline assumptions and assuming that such a site is available at $50.00/sq. ft. (probably very optimistic) the return on equity is only 8.24%.* Page 3 of Exhibit I demonstrates that such a hotel (given the above assumptions) would require an equity of

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* Based on conversations with developers and financial analysts in the field, between 5% and 10% in the early stages of operation seems quite acceptable. Some investors assume that in the first year, the return will be negative; as occupancy approaches 60-70%, the yield will approach 5% or better and after that, all increases in occupancy simply increase the return. adjustments for the lower density involved a reduction in construction costs. The increase in site size and consequent higher cost results in a higher required equity of $5,842,194. Cash flow before tax remains unchanged at $447,855, but the greater equity requirement reduces the yield to 7.67%. Note that the income portion of the pro-forma is not reproduced for the second analysis in Exhibit I as the rental rates remain unchanged.

$5,795,527 and would generate a before tax cash flow to the investor of $447,855.

To illustrate the impact of a reduction in the FAR to 2.0, (probably a 3 story structure) the analysis was repeated using the required larger site (now 100,000 sq. ft.). It was further assumed that the value of the site was $50/sq. ft. Other

Based on the assumptions made here, the reduction in required density does not appear to have a dramatic impact on the yield of the project. At higher density, a slight improvement in yield is apparent. Increasing the occupancy increases the yield dramatically (e.g., increasing the occupancy rate from 75% to 80% produces an increase from 6% to 9.7% for the scenario examined in the Exhibit at an FAR of 3.0). Moreover, it does not appear that a FAR higher than 3.0 is necessary. It would slightly improve the yield, but it is already clear that with a FAR at 3.0, a hotel is viable.

However, $50/sq. ft. is probably a very conservative estimate of land values at the Oceanfront. The higher the land value, the more dramatic would be the impact on the yield of the reduction in density. The table below demonstrates the effect.

	Land Value		
	$50/SF	$75/SF	$100/SF
Yield at 3.0 FAR	8.24%	6.4%	5.23%
Yield at 2.0 FAR	7.67%	5.36%	4.13%
% Decline	6.9%	16.3%	21.0%

A perhaps more relevant point is the size of the site that would be required at the lower density. One hundred thousand square feet is the equivalent of 2.30 acres. Few sites which meet this size requirement are available or could be assembled west of Ocean Avenue. Given the City's concern for preserving existing rent controlled residential properties, the assembly of large sites seems even less likely.

In Exhibit II a similar pro-forma analysis is performed but other factors are varied. The factors varied (rooms, FAR, vacancy rates) and the results of these variations (yield changes) are summarized in the following table:

Variation	Acres in Site	No. of Rooms	Land Cost/ Sq. Ft.	FAR	Vacancy Rate	Payroll as % of Total Rev	Cash-on-Cash Yield
1	2.06	403	$ 75	3.0	25%	70%	6.6%
2	2.06	537	$ 75	4.0	25%	70%	8.0%
3	2.06	403	$ 75	3.0	20%	50%	9.7%

These variations indicate that altering any one or a combination of variables could produce a first year return on equity yield well within the acceptable range of 5%-10% to make hotel development economically viable.

These variations indicate that altering any one or a combination of variables could produce a first year return on equity yield well within the acceptable range of 5%-10% to make hotel development economically viable.

EXHIBIT I TO OCEANFRONT PRO-FORMA AND ANALYSIS

Pro Forma 300 Room Hotel (FAR 3.0)

Land Area
Sq. Ft. 66,666
Acres 1.53
Price (Value/S.F.) = $50/SF

INCOME ANALYSIS

Scheduled Gross Income - Base Rental Income 300 rooms @ $85/day @ 360 days per year	$ 9,180,000
- Gross Parking Income 300 spaces x $10/day @ 360 days per year	1,080,000
	$10,160,000
Vacancy Factor (25% x $9,180,000)	(2,295,000)
Adjusted Gross Income	$ 7,865,000
Food, Beverage & Entertainment	
- 40% of Room Rental After Vacancy	2,754,000
Total Revenue	$10,619,000
Expenses and Payroll (70%)	(7,433,300)
Gross Operating Profit	$ 3,185,700
Operators Fee (10%)	(318,570)
Net Income	$ 2,867,130

CONSTRUCTION COSTS

Direct Costs

Shell Costs	
- Hotel 200,000 SF/Gross @ $50/SF	$10,000,000
- Parking 300 spaces @ 340 SF ea. = 102,000 @ $35/SF	3,570,000
Sub-Total	$13,570,000
Tenant Improvements	
- Hotel 200,000 SF @ $20/SF	4,000,000
Total Direct	$17,570,000

Indirect Costs

Architect: $10,000,000 x .05	$ 500,000
Loan Pts.: $17,909,177 x .02	358,183
Interim Interest: $17,909,177 x .15 x .50	1,343,188
Developers Overhead: $10,000,000 x .03	300,000
Contingency: $10,000,000 x .03	300,000
Total Indirect	$ 2,801,371
LOAN AMOUNT*	$17,909,177

Permanent Loan Amount

NOI(Net Operating Income) - DCR(Debt Coverage Ratio) = Annual Debt Service
$2,867,130 - 1.2 = $2,389,275

* At 13% amortized over 30 yrs. this would service a loan of $17,909,177

LAND VALUE AND LAND AREA ASSUMPTION

66,666 SF @ $50/SF	$ 3,333,333

COMPUTATION OF REQUIRED EQUITY AND ROE:

Total Construction Costs:	
Direct Costs (Building)	$17,570,000
Indirect Costs	2,801,371
Land	3,333,333
Sub-Total	$23,704,704
Loan Amount	(17,909,177)
Required Equity	$ 5,795,527
Net Operating Income	$ 2,867,130
Annual Debt Service	(2,389,275)
Cash Flow Before Tax (CFBT)	$ 477,855
Return of Equity (CFBT/Equity)	8.24%

Key Assumptions

a) 300 rooms is minimum room requirement to attract a major operator and to have the hotel function effectively in the executive conference market.

b) 400 SF per room is assumed

Rooms 400 x 300	= 120,000 sq. ft.
Lobby, and meeting rooms and restaurant.	30,000 sq. ft.
common area, halls, etc.,	50,000 sq. ft.
	200,000 sq. ft.

c) 25% vacancy rate

d) Food and beverage revenue is 40% of net room rental revenue.

e) Expenses and payroll are 70% of total revenue (usually 70-75%).

f) Operators fee is 10% of gross operating profit.

g) At $30/SF construction costs, most of the parking will be underground. Given the objective of low building height this seems likely to be necessary.

Pro Forma 300 Room Hotel (FAR 2.0)*

Construction Costs

Direct Costs

Shell Costs	
- Hotel 200,000 SF/Gross @ $45/SF	$ 9,000,000
- Parking 300 spaces @ 340 SF ea. = 102,000 SF @ 30/SF	3,060,000
	$12,060,000
Tenant Improvements	
- Hotel 200,000 SF @ $20/SF	4,000,000
Total Direct	$16,060,000

Indirect Costs

Architect: $9,000,000 x .05	$ 450,000
Loan Points: $17,909,177 x .02	358,183
Interim Interest: $17,909,177 x .15 x .50	1,343,188
Developers Overhead: $9,000,000 x .03	270,000
Contingency: $9,000,000 x .03	270,000
Total Indirect	$ 2,691,371

LAND VALUE AND LAND AREA ASSUMPTION

100,000 SF @ $50/SF	$ 5,000,000

* Income analysis remains the same as under prior scenario.

Pro Forma 300 Room Hotel (FAR 2.0)*

Construction Costs

Direct Costs

Shell Costs	
- Hotel 200,000 SF/Gross @ $45/SF	$ 9,000,000
- Parking 300 spaces @ 340 SF ea. = 102,000 SF @ 30/SF	3,060,000
	$12,060,000
Tenant Improvements	
- Hotel 200,000 SF @ $20/SF	4,000,000
Total Direct	$16,060,000

Indirect Costs

Architect: $9,000,000 x .05	$ 450,000
Loan Points: $17,909,177 x .02	358,183
Interim Interest: $17,909,177 x .15 x .50	1,343,188
Developers Overhead: $9,000,000 x .03	270,000
Contingency: $9,000,000 x .03	270,000
Total Indirect	$ 2,691,371

LAND VALUE AND LAND AREA ASSUMPTION

100,000 SF @ $50/SF	$ 5,000,000

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* Income analysis remains the same as under prior scenario.

COMPUTATION OF REQUIRED EQUITY AND ROE

Total Construction Costs		
Direct Costs (Building)		$16,060,000
Indirect Costs		2,691,371
Land		5,000,000
	Total	$23,751,371
Loan Amount		(17,909,177)
Required Equity		$ 5,842,194
Net Operating Income		$ 2,867,130
Annual Debt Service		(2,389,275)
Cash Flow Before Tax		$ 447,855
Return on Equity (CFBT/Equity)		7.67%

Note: The key changes in the second pro forma are:

a) Site size = 100,000 SF (FAR = 2.0)
b) Site value @ 50/SF = $5,000,000
c) Construction costs: $45/SF vs. $50/SF
For the building shell
$30/SF vs. $35/SF
For the parking.
d) Net operating income remains unchanged.

EXHIBIT II -- VARIATION #1 TO OCEANFRONT PRO-FORMA AND ANALYSIS

Pro-Forma: Hotel at FAR of 3.0,403 rooms, $75 per square ft land price

Land Area		
Sq. Ft.	89,600	
Acres	2.06	
Price (Value/SF)	$75/SF	
INCOME ANALYSIS		
Scheduled Gross Income		
- Base Rental Income 403 rooms @ $85/day @ 360 days per year		$12,331,800
- Gross Parking Income 403 spaces @ $10/day @ 360 days		1,450,800
		$13,782,600
Vacancy Factor (25% x $12,331,800)		(3,082,950)
Adjusted Gross Income		$10,699,650
Food, Beverage & Entertainment - 40% of Room Rental After Vacancy		3,699,540
Total Revenue		$14,399,190
Expenses and Payroll (70%)		(10,079,433)
Gross Operating Profit		$ 4,319,757
Operators Fee (10%)		(431,975)
Net Income		$ 3,887,782

CONSTRUCTION COSTS

Direct Costs

Shell Costs	
- Hotel 268,000 SF/Gross @ $50/SF	$13,440,000
- Parking 403 spaces underground @ 340 SF ea. @ 340 SF ea. = 137,020 x $35	4,795,700
Tenant Improvements	
- Hotel 268,000 SF @ $20	5,376,000
Total	$23,611,700

Indirect Costs

Architect: $13,440,000 x .05	$ 672,000
Loan Points: $23,611,700 x .02	472,234
Interim Interest: $23,611,700 x .50 x .15	1,770,977
Developers Overhead:	
$13,440,000 x .03	403,200
Contingency: $13,440,000 x .03	403,200
Total	$ 3,721,511
Total Direct & Indirect	$27,333,211

LOAN AMOUNT

Permanent Loan Amount

NOI - DCR = Annual Debt Service $3,887,782 - 1.2 = $3,239,818 at 13% over 30 years	$24,284,555

LAND VALUE AND LAND AREA ASSUMPTION

89,600 SF @ $75.00/SF	6,720,000

COMPUTATION OF REQUIRED EQUITY AND ROE

Total Construction Costs:	
Direct Costs	$23,611,700
Indirect Costs	3,721,511
Land	6,720,000
Total	$34,053,211
Loan Amount	(24,824,555)
Required Equity	$ 9,768,656
Net Operating Income	$ 3,887,782
Annual Debt Service	(3,239,818)
Cash Flow Before Tax	477,855
Return on Equity (Cash-on-Cash)	6.6%

Variation #2

Same Assumptions as Variation #1 except FAR = 4.0, 537 rooms.

COMPUTATION OF REQUIRED EQUITY AND ROE

Total Construction Costs	
Direct & Indirect	$36,421,673
Land	6,720,000
	$43,141,673
Loan Amount	(32,359,317)
Required Equity	$10,782,356
Net Operating Income	$ 4,317,077
Annual Debt Service	(3,597,564)
Cash Flow Before Taxes	$ 863,416
Return on Equity (Cash-on-Cash)	8.0%

VARIATION #3

Same assumptions as Variation #1 but vacancy rate of 20% and expenses & payroll only 50% of the increment in total revenue.

COMPUTATION OF REQUIRED EQUITY AND ROE

Total Construction Costs		
Direct & Indirect		$27,333,211
Land		6,720,000
	Total	$34,053,211
Loan Amount		(26,710,967)
Required Equity		$ 7,342,244
Net Operating Income		$ 4,276,233
Debt Service		(3,563,527)
Cash Flow Before Tax		$ 712,705
Return on Equity (Cash-on-Cash)		9.7%

APPENDIX II

SUMMARY COMPARISON OF REGULATIONS BY SCENARIO — OCEANFRONT

Zone/ Use	Comparison Category	Continuation	Task Force**	Alternative
H (Hotel)*				
	Height FAR	N/A	N/A	Zone 1: 42-75' (solar envelope) 3.0 Zone 2: 42-75' (solar envelope) 3.0 Zone 3: 30-45'(solar envleope) 1.5 Zone 4: 30-75'(solar envelope) 3.0
C-A	Height FAR	6 stories 6.0 (effective FAR)	3 stories (45') 2.0	Reclassify Oceanfront C-A to H Zone 1 needs Specific Plan to implement zoning
C-4	Height FAR	6.0 stories 3.3	2 stories (30') 1.5 (effective FAR)	Reclassify Oceanfront C-4 to H
C-2	Height FAR	2 stories (30')	Same as Scenario 1 2-3 stories (30'-35') 2.0-3.0	Reclassify Oceanfront C-2 to H
R-4	Height FAR	6 stories (65') 2.0	4 stories (50')	Reclassify Oceanfront R-4 to H
Public Use***		N/A	N/A	Reclassify to "Public"

* Residential is an allowable use in the H Zone. See Figure 2 on Urban Design and Development Standards.

** Residential uses are allowed in all the districts.

*** Existing parks, schools, cemetery, Civic Center facilities, now zoned for commercial residential use, are proposed to be reclassified to public throughout the City.